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Statement
by Felix G. Rohatyn
to the
U.S. Senate Banking Committee
Senator Christopher Dodd, Chairman
March 11, 2008

Mr. Chairman and members of the Committee,

I appreciate the opportunity to testify here on behalf of the Commission on Public Infrastructure, which Senator Warren Rudman and I had the honor of co-chairing. We are gratified that the work of this commission, and the principles for infrastructure investment that it established, played a meaningful role in the creation of the National Infrastructure Bank Act of 2007. Mr. Chairman, we also would like to thank the Center for Strategic and International Studies for sponsoring our bipartisan commission, and we thank our fellow commissioners, including you and Senator Hagel, for helping us explore new ways to address the crisis of America's crumbling infrastructure.

As you know, Mr. Chairman, our commission proposed a new type of government effort to spur the rebuilding of public infrastructure—a National Infrastructure Bank that will refocus our national infrastructure policy on those projects that generate the most significant returns. Such a new facility would allow us to treat the renewal of our country's roads and bridges, schools and water lines, airports and air traffic control systems, ports and water projects, as investments, and not simply as budget expenditures.

Our Commission's recommendation would create a federal entity that will more effectively finance infrastructure projects of substantial national or regional significance using public and private capital. The National Infrastructure Bank Act that you and Senator Hagel have authored could do exactly that, and we strongly urge its passage.

The Infrastructure Bank's initial capital of $60 billion would be deployed so as to bring in billions of additional dollars from outside investors and other partners. The Bank should have the authority to issue bonds with maturities of up to 50 years, among its other financing capabilities. These long bonds would be backed by repayment of the loans the Bank made to state and local governments, and would therefore align the financing of infrastructure investments with the benefits they create. If the bank were to provide subsidies, whether through credit insurance, interest rate discounts, or even grants to accompany its lending, these would be transparent, using credit scoring. To the extent that the bank provided non-subsidized lending, it would be self-financing. Tens of thousands of private sector jobs would be created over time, helping to provide strong economic growth.

The American Society of Civil Engineers forecasts a total infrastructure investment need of $1.6 trillion over the next 5 years. The Infrastructure Bank could be an important factor in support of such a program.

Mr. Chairman, our commission also applauds Senator Hagel and you for proposing an Infrastructure Bank whose financial governance, project selection and delivery would be focused on funding those projects with the highest economic returns. Right now, road, water, airport and other funding candidates are evaluated using widely disparate assumptions for capital costs, discount rates and other characteristics, if they are evaluated at all. And many projects are funded using fixed cost shares that don't reflect different local conditions. Moreover, the Bank has the prospect of being unencumbered by earmarks that benefit localities but neglect national and regional priorities. The Bank would, therefore, be modeled after modern investment banks, or, in fact, the European Investment Bank, whose financing of public projects has created a superb and efficient European infrastructure, including a high-speed rail network that is a model of efficiency.

While the private sector drives our economy, our government—since the beginning of the Republic—has played an indispensable role as the lead investor in America's transport, infrastructure and education. Thomas Jefferson's purchase of Louisiana, the canals of upstate New York and the railroads that linked our industrial cities to our heartland, with the powerful support of Abraham Lincoln, were vital national investments. So were the land-grant colleges, the GI Bill, as well as President Eisenhower's interstate highway system and FDR's mobilization for WWII. Indeed, Presidents Jefferson, Lincoln, Franklin Roosevelt and Eisenhower proved that public investment can generate vast returns.

Our bipartisan commission reflects the strong support for this idea among both Democrats and Republicans, as well as business and labor. We know that our public infrastructure crisis is no less serious for being silent. To fix it, we call for federal action that is big enough and smart enough.

The American people deserve railways that are as good as Europe's, ports that work as efficiently as modern Asian port facilities and public schools that are not in ruins. Indeed, as our investment in infrastructure falls behind our needs, *The Economist* reports that China will invest $200 billion in its railways between 2006 and 2010—the largest investment in railroad capacity made by any country since the 19th century—this in addition to having built 53,000 kilometers of expressways since the 1990's, and plans over the next twelve years to construct 300,000 kilometers of roads in rural China, as well as 97 new airports. Meanwhile here at home—according to the Brookings Institution—our congested roads, in 2005 alone, cost us $78 billion in lost productivity and higher freight charges.

There will be some, Mr. Chairman, who will say that we cannot afford to meet our infrastructure needs, that our budget deficits are too large and that our borrowing is too great. The reality, Mr. Chairman, is that we cannot afford <u>not</u> to do this. Every year that we delay will cause additional deficits and additional losses in productivity and employment. One of the most basic accounting concepts is the difference between capital investments on the one hand, and operating expenses on the other. It is true that our operating expenses are excessive and possibly out of control, much of it due to the war in Iraq. On the other hand, our capital investments are woefully inadequate and can be leveraged in a number of ways through the National Infrastructure Bank.

To compete in the global economy, improve our quality of life and raise our standard of living, we must successfully rebuild America's public infrastructure. It is with a sense of urgency that we call upon the members of this committee, from both sides of the aisle, to begin this process by approving the National Infrastructure Bank Act of 2007. In so doing, you will follow in the footsteps of great American leaders who adopted a fresh perspective on our national wealth and how to increase it.

On behalf of Senator Rudman and myself, I wish to thank you, Mr. Chairman, for the attention that you and the members of your Committee are giving to this important issue.